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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000920

SIPDIS

FOR THE DEPUTY SECRETARY

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TAGS: OTRA NEGROPONTE JOHN AJ

SUBJECT: SCENESETTER FOR THE DEPUTY SECRETARY'S VISIT TO AZERBAIJAN

Classified By: Ambassador Anne Derse for reasons 1.4 (b) and (d).

¶11. (C) SUMMARY: Your visit comes as the Russia-Georgia conflict continues to unfold, with critical and sensitive ramifications for Azerbaijan. Baku quietly supported Georgia from the start, providing immediate assistance to Tbilisi in the form of food and other commodities, financial aid to banks, energy, and engineering services to the railroads. President Aliyev, however, has been sharply critical of Georgian President Saakashvili, calling his actions vis-a-vis Russia "irresponsible" and damaging to Azerbaijan's regional economic assets, as well as to its sovereignty and independence. In particular, he worries about implications for resolution of the Nagorno-Karabakh conflict and the impact of the crisis on Azerbaijan's oil and gas production and export plans. END SUMMARY.

CONTEXT

¶12. (C) Azerbaijan, in the aftermath of the August conflict in Georgia, is a vulnerable country in an unstable region, wedged between Russia and Iran, aiming to protect its independence, sovereignty and territorial integrity, with exports of nearly one million barrels of oil per day hanging in the balance. President Ilham Aliyev, following the course set by his father, continues the country's strategic re-orientation toward the West. Recent events in the Georgia, however, have made this choice more difficult to sustain. Russia and Iran, in particular, have engaged Azerbaijan at high levels this month, suggesting at times increased security and energy links to sway Baku in their directions.

¶13. (C) Azerbaijan, besides producing incremental, non-OPEC oil, cooperates with the United States on regional security -- including in Iraq and Afghanistan, and anti-terrorism support -- and is achieving economic reforms, as outlined in the World Bank's recent "Doing Business" report. Still, Baku still faces challenges on corruption, democracy and human rights. Since President Aliyev visited the United States in April 2006, we have worked to strengthen the relationship. Following Russia's foray into Georgia, those efforts have intensified. As Vice President Cheney said during his timely visit to Baku earlier this month, the U.S. has "a deep and abiding interest" in the well being and security of Azerbaijan, and a commitment to further strengthen our relations for the long term.

Security Cooperation

14. (C) Azerbaijan is a steadfast partner in U.S. counterterrorist efforts. In Iraq, 150 Azerbaijani infantry troops have stood alongside U.S. Marines guarding the Haditha Dam. At the NATO Summit in Bucharest in April, and again this month in Brussels at the NAC 26 1 talks, Azerbaijan pledged to double its peacekeeping forces in Afghanistan from 45 to 90 troops, provide new training programs, and increase civilian support. Azerbaijan provides unlimited and important over-flight and landing rights for Coalition aircraft bound for Iraq and Afghanistan, as well as strong information sharing and law enforcement cooperation in fighting terror.

15. (C) Security cooperation is one of the strongest aspects of our bilateral relationship, and is even more important in the aftermath of Russia's military action in Georgia. In your meetings with President Aliyev and senior Azerbaijani officials, it would be helpful to thank them for their support and the press the need to move forward. Azerbaijan's leadership remains focused on the Nagorno-Karabakh conflict. Azerbaijan's leadership has indicated at all levels that Baku wants to purchase U.S. military equipment and arms. President Aliyev and others will likely argue that Section 907 of the Freedom Support Act, as well as Armenia-Azerbaijan "parity" on security assistance, restrict our cooperation and do not reflect Azerbaijan's contributions as a security partner, nor its legitimate defense needs. Since 2001, the U.S. Congress has granted President Bush the authority to waive Section 907 on national security grounds, and the

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President has done so on an annual basis.

16. (C) President Aliyev and others have discussed the need for a security guarantee from the United States. We encourage you to sound out President Aliyev on specifics. President Aliyev has stated that, in the newly dangerous regional climate, Azerbaijan must minimize risks and wishes to engage with the United States on new security consultations. He has told USG interlocutors that "Azerbaijan is willing to go as far as the U.S. is willing to go" on security cooperation. Azerbaijan wants peaceful, sustainable relations with all neighbors. In the aftermath of the Russia-Georgia conflict, however, this balanced approach has become more difficult to maintain.

17. (C) An agreement to consult on issues of national security would be an approach to reassure Azerbaijan's interests. Another would be to have strategic U.S. assets in Azerbaijan. We could expand "gas-n-go" services for coalition aircraft by developing infrastructure for a forward operating location at Nasosnaya Airfield. We could also explore the possibility of stationing an X-Band missile defense radar in Azerbaijan. Azerbaijan was, in principle, willing to consider joint U.S.-Russian use of the Gabala Radar Station, and we have had exploratory exchanges on a possible train and equip program. Yet another path we could explore is encouraging Azerbaijan to enter into an intensified dialogue with NATO in preparation for a future membership action plan.

Nagorno-Karabakh

18. (C) The Nagorno-Karabakh (NK) conflict is Azerbaijan's top domestic and foreign policy priority, and the sole issue that unites Azerbaijani citizens across the political spectrum. All conversations in Azerbaijan eventually turn to NK and the adjacent occupied territories. From Baku's perspective, any solution to the conflict must preserve Azerbaijan's territorial integrity, i.e., NK cannot become an independent state.

19. (C) Despite international support for the OSCE Minsk Group (U.S., France and Russia), the GOAJ and its populace

believe the international community, including the USG, should pressure Armenia for a solution consistent with Azerbaijan's territorial integrity. They are increasingly frustrated with what they believe is insufficient progress by the Minsk Group. The Azerbaijani Government was extremely angry over the Co-Chairs' "no" vote on Azerbaijan's UN General Assembly resolution regarding territorial integrity and Nagorno-Karabakh and continues to express its concerns in public and private fora. Their concerns, though, have subsided following Vice President Cheney's visit and affirmation that a negotiated solution on NK "must start from the principle of territorial integrity."

¶10. (C) President Aliyev remains wary of the motives of his Armenian counterpart, but concedes that Yerevan may be ready to discuss a deal. Likewise, Aliyev has expressed concern about Turkey's efforts to reconcile with Armenia, noting that any border re-opening without resolution of NK would lead to disastrous results, including relations on energy cooperation. On the heels of the Georgian conflict, there may be a new opening from the GOAJ for a senior-level dialogue to resolve this frozen conflict. If successful, the door to cooperation and constructive U.S. involvement with Azerbaijan will swing open.

Energy Links Azerbaijan to the West

¶11. (C) Azerbaijan views its energy resources as the key to establishing strategic cooperation and obtaining political support from Europe and the West. Azerbaijan is a crucial link in the East-West energy corridor that aims to diversify Europe's oil and gas supply. U.S.-Azerbaijan cooperation was critical in realizing the Baku-Tbilisi-Ceyhan (BTC) pipeline project, which in July 2006 delivered its first oil to Ceyhan, Turkey. Prior to disruptions to the BTC (Turkey explosion, the Russia-Georgia crisis and current offshore technical glitches) volumes exceeded 800,000 barrels per day.

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Plans should eventually be realized to link expanding oil production in Kazakhstan with the BTC pipeline, initially by tanker. Azerbaijan's ability to produce and transport natural gas to Europe via Georgia and Turkey increasingly is the focus of bilateral energy discussions. The significance of these issues, particularly the need for security and stability in the Caspian-Caucasus-Black Sea corridor, has heightened following Russia's invasion of Georgia.

¶12. (C) In your meetings with President Aliyev, it would be useful to underscore that, despite the crisis in Georgia, the USG reaffirms its commitment to work with the GOAJ and other responsible partners in the region to develop the next generation of Caspian energy resources, beyond the Baku-Tbilisi-Ceyhan oil pipeline. The USG will encourage Georgia, Turkey and Europe to join efforts to work together constructively on projects such as the Turkey-Greece-Italy and NABUCCO natural gas pipelines, and will emphasize the need for more discussion and action on infrastructure security. The USG applauds the efforts of Azerbaijan, Turkmenistan and Kazakhstan to develop constructive, productive relations.

Democratic Reform

¶13. (C) Getting the GOAJ to undertake substantive political and economic reform is an ongoing challenge that mirrors difficulties in most other post-Soviet states. The USG engages with the GOAJ at all levels, arguing that our three core interests -- security, energy and economic and political reform -- are mutually reinforcing and interdependent. Many in the government still have business interests and do not perceive economic reform as serving their immediate, personal, short-term interests. Reformers here scored a major victory in pushing through steps that won Azerbaijan

the number one spot on the World Bank's list of global reformers in this year's Doing Business report. The country's October 15 presidential election presents an important opportunity for Azerbaijan to demonstrate its commitment to democratic reform. President Aliyev is set to coast to an easy electoral victory. The traditional opposition, whose support is small and declining, is boycotting the elections claiming that the pre-election climate does not permit a fair poll. The other candidates participating in the election have little name recognition or chance of garnering significant support. We hope that after the election, President Aliyev will understand a new push for reform.

Unprecedented Economic Growth

¶14. (C) With GDP growth of 25 percent in 2007, Azerbaijan has one of the fastest growing economies in the world, driven nearly entirely by the energy sector. The government's economic planning and the country's judicial, regulatory and banking sectors are still developing and face a challenge in managing this enormous influx of revenue. The IMF reports, however, that the GOAJ plans in 2009 to rein in the dramatic interests in spending, common in recent years, to moderate inflation. Corruption is pervasive, as highlighted in the latest Transparency International Corruption Perceptions Index. Azerbaijan rated 158 out of 189 countries surveyed. Significant institutional reform and capacity-building are required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers.

Religious Issues

¶15. (C) Azerbaijan is a secular Shiite Muslim country with a significant Sunni minority. Current estimates show that Azerbaijan is roughly 65 percent Shia and 35 percent Sunni. Following a broader post-Soviet trend, there are a growing number of practicing Muslims, most of whom follow mainstream teachings and make no distinction between Sunnis and Shia. It is still a small perception of the population -- 1-3 percent -- in the view of informed observers. There are, however, isolated pockets of extremists fuelled by increasing

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interaction with Arab, Turkish and Iranian missionaries. Rivalry among Muslim sects and religious groupings is on the rise. Acts of terrorism are rare in Azerbaijan but have occurred. For example, the GOAJ is currently investigating an August 17 bombing of a Sunni mosque in Baku that killed three people and injured several others. Azerbaijani citizens are free to travel abroad, and some Azerbaijanis have accepted scholarships and other vehicles to study in Iran, Saudi Arabia and elsewhere. The strongly secular Government of Azerbaijan often clamps down on outward religious activity, especially in those areas where it is thought to be radical, and has outlawed proselytizing by foreigners.

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